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## Philippines

## Grain and Feed

## Annual

## 2003

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### Report Highlights:

**Overall grain imports will increase in MY02/03 due to fears of the El Niño weather disturbance but are expected to decline in MY03/04 due to an expected increase in local rice and corn production. A shift away from milling wheat and white corn to rice starting MY02/03 is expected as a result of increasing wheat prices and a decline in local corn production. Feed grain demand during the year will likely remain flat compared to the previous year although overall wheat and corn imports are still expected to surpass their previous levels. While feed demand is expected to recover and increase the following year, wheat imports are expected to remain flat while corn imports are expected to decline from their year-ago levels.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Manila [RP1], RP

## Executive Summary

Heavy importation and record rice production in MY02/03 will result in very high stock levels. Enhanced by the decline in local corn production as well as high milling wheat prices, a shift away from wheat and corn to rice is expected to result in a surge in rice consumption during the year. Rice imports will decline in MY03/04 as the GOPs hybrid rice program is expected to raise production significantly during the year.

Overall feed grain consumption is expected to remain flat in MY02/03 compared to the previous year but increase in MY03/04. The increase during the latter would have been greater had it not been for an overproduction of broilers in the second half of 2002 as well as the rampant entry of smuggled livestock meat and meat products. Feed corn consumption is expected to decline in MY02/03 as the shift to cheaper feed wheat is expected to continue resulting in a slight increase in feed wheat consumption during the period. A reversal, however, is expected in MY03/04 as feed wheat supplies begin to wane and local corn production picks up.

Despite the decline in overall corn consumption in MY02/03, corn imports are still likely to increase due to the drop in local production. Corn production is expected to increase in MY03/04 as initial commercial production of Bt corn begin and imports are likely to decline from the previous year's level. Overall wheat imports are expected to be flat during the year.

## Production

### Rice

According to the Bureau of Agricultural Statistics (BAS), Philippine agriculture expanded 3.7 percent in 2002 in terms of value, better than the official target of 3.1 to 3.5 percent for the year. Production in the sector grew 6.19 percent in the fourth quarter compared to the same period last year with the crops subsector expanding 10.4 percent. Crops traditionally account for about half of total agricultural production. Volume-wise, rice output during the year reached an all-time high of 13.27 MMT, 2.4 percent higher than the previous year's level and the fourth consecutive year of record rice production.

The fourth quarter traditionally represents 40 to 45 percent of total annual rice production, and adequate but off-season rainfall during the period enhanced increased higher paddy rice production. CY2002 was characterized by changing seasonal patterns which affected normal cropping systems. Some parts of the country experienced heavy rainfall and flooding while others received normal to near normal rainfall.

On a market year basis, however, rice output in MY02/03 is predicted to be fairly flat from the previous year's level despite a modest increase in area planted as some farmers have adjusted with the shifting seasons. The climatic change may be a prelude to the El Niño weather disturbance the effects of which are expected to be very mild. The Department of Agriculture (DA) said that despite the El Niño weather phenomenon, it will stick to its rice production targets of 14.3 MMT for 2003 and 15.5 MMT in 2004. Newly appointed DA Secretary Luis P. Lorenzo Jr. has reportedly stated that the country will be able to attain the targeted 97 percent rice self-sufficiency by the end of 2004 through intensive planting of hybrid and certified rice seeds.

Under such a scenario, the Department of Agriculture (DA) reportedly aims to have 200,000 hectares, or roughly 16 percent of the country's total irrigated rice production area of 1.2 million hectares, planted to hybrid rice this year while around 70 percent of irrigated areas are being targeted for the planting of certified seeds. The balance of 14 percent is expected to be cultivated with farmer home-saved seeds which include traditional rice varieties. This year, the government aims to see high-yielding hybrid rice planted on 70,000 hectares.

Although efforts of the Department of Agriculture (DA) to promote hybrid and certified rice seed use has intensified under the new DA leadership (refer to RP2079), delays in hybrid rice production and a nagging budget deficit will likely slow implementation of the program. The positive effects of using better-quality seeds are expected to be more pronounced starting MY03/04 by which time rice production is expected to significantly increase.

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**Corn**  
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Corn production, on the other hand, is expected to decline in MY02/03 but will likely register an increase in 2003. Corn output dropped 4.5 percent in 2002 largely due to unfavorable weather conditions which reduced area planted. There were extended dry periods in major corn growing areas and some isolated flooding in mid- 2002. The decision by the Philippines to allow commercial planting of its first biotech crop, Bt corn, last December (refer to RP2080) is the main reason for the projected production increase in 2003 as well as in MY03/04. Some shifting to corn from rice is also expected due to the mild El Niño weather disturbance in 2003.

Commercial planting of the insect-resistant variety of corn called YieldGard is expected to start in the second quarter of this year although to date, how much area will be devoted to Bt corn production has still not been set. DA reportedly intends to increase annual domestic corn production to 6.0 MMT in the next five years.

Dry season trials done at 10 trial sites showed YieldGard posting an estimated 1–24 percent yield advantage over traditional corn lines without the use of pesticides. The wet season trials, on the other hand, were administered at six trial sites and showed YieldGard posting a 40 percent harvest advantage over traditional hybrid corn lines without the use of pesticides.

Commercial production of wheat and barley in the Philippines continues to be nonexistent.

## **Consumption**

President Gloria Macapagal-Arroyo announced Jan. 30, 2003 that the Philippine GDP last year grew 4.6 percent while GNP expanded 5.2 percent last year. The growth rate, she stressed, was the highest for the country since the 1997 financial crisis. According to the president, the growth rate surpassed the government's 2002 GDP forecast of 4.0 to 4.5 percent.

Economists see growth slowing to 3.9 percent during the year, below the official forecast of 4.2 to 5.2 percent, but some analysts think the country going through recession is unlikely due to the expected good farm production and better domestic spending. Consumption is the dominant driving component of Philippine GDP with a commanding 78 percent share.

Rice consumption in MY01/02 increased due to ample supply and will continue to be the dominant food grain consumed through MY03/04. Certain shifts in grain consumption, however, are expected. Food corn consumption and overall wheat demand are likely to contract slightly during the period.

A significant jump in rice consumption in MY02/03 is predicted due to the rapidly increasing Philippine population and the improvement in farm incomes as indicated by the growth of the agricultural sector. Demand for milling wheat and food corn are predicted to slightly decline during the period as some consumers are likely to shift to rice. The shift will be enhanced by high milling wheat prices and the expected decline in corn production during the year. The significant increase likewise takes into account expected spoilage losses due to the unexpected high level of rice imports, some of which are likely to end up as waste (see TRADE). Demand for rice the following year is likely to grow commensurate with the high Philippine population growth rate of 2.3 percent as retail prices remain fairly stable.

Prices Table			
Country	Philippines		
Commodity	Rice, Milled		
Prices in	Pesos	per unit	Kg.
		of measure	
Year	2001	2002	% Change
Jan	19.00	19.30	1.58%
Feb	19.12	19.38	1.36%
Mar	19.22	19.38	0.83%
Apr	19.21	19.40	0.99%
May	19.27	19.47	1.04%
Jun	19.38	19.68	1.55%
Jul	19.74	20.14	2.03%
Aug	19.99	21.00	5.05%
Sep	19.96	21.31	6.76%
Oct	19.64	20.55	4.63%
Nov	19.48	N/A	
Dec	19.37	N/A	
Exchange Rate	53.67	Local currency/US \$	

Note: 2001 prices are revised retail prices

Source: Bureau of Agricultural Statistics

Rice retail prices for the first 10 months of 2002 averaged P19.96 per kg. (\$0.38) but may still decline as the fourth quarter is when the main rice crop is harvested. Average annual retail price for 2001 was P19.45 per kg. (\$0.37).

For feed grain demand, consumption is predicted to remain fairly flat in MY02/03 compared to the previous year. Feed

demand would have been greater had it not been for an overproduction of broilers in the middle of the market year as well as the surge of smuggled meat and meat products. Industry contacts have indicated that depopulation of large broiler farms has already occurred as a result, while local hog raisers have been urging the GOP for relief measures as hog prices have declined significantly. Feed demand is expected to recover in MY03/04, however, like food grains, feed grain consumption during the year is expected to be characterized by significant fluctuations.

Corn demand in MY01/02 was adjusted downwards as the shifting to feed wheat was higher than expected in view of low domestic corn production as well as cheap feed wheat prices. Traditionally, around 70 to 75 percent of livestock and poultry mixed feeds use yellow corn as a main ingredient, and feed wheat, mainly from India, began to eat into this share during the period. Because of this, demand for feed wheat increased during the year. For MY02/03, further shifting away from corn to feed wheat is expected. The softening demand for feed corn has resulted in the general decline of wholesale yellow corn prices in 2002.

Prices Table			
Country	Philippines		
Commodity	Corn		
Prices in	Pesos	per unit	Kg.
		of measure	
Year	2001	2002	% Change
Jan	9.73	9.28	-4.62%
Feb	9.75	8.85	-9.23%
Mar	9.74	9.38	-3.70%
Apr	9.53	8.76	-8.08%
May	9.49	8.65	-8.85%
Jun	9.43	9.06	-3.92%
Jul	9.40	9.30	-1.06%
Aug	9.27	8.76	-5.50%
Sep	9.10	8.62	-5.27%
Oct	9.19	8.14	-11.43%
Nov	9.14	N/A	
Dec	9.42	N/A	
Exchange Rate	53.67	Local currency/US \$	

Note: 2001 prices are revised (wholesale yellow)

Source: Bureau of Agricultural Statistics

Wholesale yellow corn prices in the first ten months of 2002 averaged P8.88 per kg. (\$0.17) compared to P9.43 per kg. (\$0.18) average for the whole 2001. Corn prices are expected to strengthen as demand increases in MY03/04 as a result of tight global wheat supplies. The same holds true for milling wheat as some local flour millers have already

announced higher flour prices. Major snack companies such as Universal Robina Corp. (URC) as well as private companies Monde Nissin and Republic Biscuit Corp. (Rebisco) confirmed that the rising cost of imported wheat had forced them to adjust their selling price of biscuits, crackers and other snacks. Higher wheat prices have been exacerbated by recent and successive oil price hikes.

## Trade

Post maintains its original estimate for rice imports in MY01/002 as reported in RP2055 despite differing estimates provided by the National Statistics Office (NSO) in the trade matrix below. As mentioned in RP2055, MY01/02 imports are composed of the approved initial 390 TMT import requirement, an estimated 30 TMT rice component under the FY01 P.L. 480 Title 1 Agreement, roughly 235 TMT imported during the second half of 2001 and an estimated 300 TMT of undocumented rice imported during the period. Heavy importation, particularly in the second half of 2002, was resorted to as the country braced for another El Niño drought though industry contacts consider there to have been over-importation as the weather disturbance did not materialize. Because of this, upward adjustments were made by Post to rice imports in 2002.

Import Trade Matrix			
Country	Philippines		
Commodity	Rice, Milled		
Time period	Jul-Jun	Units:	Metric Tons
Imports for:	2000		2001
U.S.	102,846	U.S.	38,374
Others		Others	
Vietnam	781,261	Vietnam	187,221
Thailand	106,360	Thailand	146,676
PRC	38,043	India	55,832
Taiwan	158	Pakistan	9,060
Australia	105	Taiwan	462
		PRC	338
		Singapore	276
Total for Others	925,927		399,865
Others not Listed	17		481
Grand Total	1,028,790		438,720

Source: National Statistics Office

For 2003, rice imports are projected to decrease slightly from the previous year as a result of good production and adequate stocks. Moves by the GOP to liberalize the rice market are not expected to affect rice imports significantly. Rice imports by the private sector are likely to be lower than expected as a result of the limited time allowed for

opening Letters of Credit (LCs) as well as a reversal of earlier pronouncements in relation to full market liberalization (see POLICY).

While the National Food Authority (NFA: State-owned sole import window for rice) claims there is a rice Minimum Access Volume (MAV) of 194 TMT in CY2003, rice imports within and outside the MAV are to be charged a uniform 50 percent duty. This appears to contradict the very essence of a tariff quota system and is likely to be a main subject of the rice import guidelines review. The rice MAV for CY2004 is set at 224 TMT.

Imports for 2003 are inclusive of an estimated 200 TMT of smuggled rice, down from 300 TMT the previous year as the government undertakes a crackdown on smuggling. All rice imports during the year will be subjected to a 50 percent duty. On a market year basis, however, imports in MY02/03 are predicted to surpass the previous year's level as a result of heavy importation in the second semester of 2002. Rice imports from the U.S. in MY02/03 represent volumes under the FY02 P.L. 480 Title I and Section 416 (b) Agreements.

MY03/04 rice imports, both legitimate and smuggled, are expected to decline from their previous levels due to very high stocks entering the year as well as another expected record rice crop this year. Vietnam and Thailand are expected to be the dominant suppliers of rice imports in MY02/03 and MY03/04. Imports from India, on the other hand, are likely to decline drastically as the GOP may even ban the Projects and Equipment Corp. (PEC) of India from supplying rice to the country after confirming the presence of insect pests on about 100,000 MT it had shipped last year.

Despite the contraction in corn consumption in MY02/03, corn imports during the year are still expected to grow from its previous year level mainly due to the decline in local production. Some shifting back to corn from feed wheat is expected beginning the second semester of 2003 as wheat prices continue to rise. For MY03/04, however, corn imports are predicted to decline from the MY02/03 level mainly due to a significant increase in local corn production as a result of the commercialization of Bt corn cultivation. Corn from the U.S. is expected to dominate imports during both years followed possibly by China. Increased corn imports in MY02/03 are enhanced by a reduction in out-quota tariff rates from 65 percent last year to 50 percent in 2003. The final tariff structure through 2004 for corn will therefore be 35 percent in-quota rate and 50 percent for out-quota imports.

Driven mainly by strong feed demand in the early part of MY02/03, overall wheat imports during the period are also expected to post an increase from its year-ago level. Wheat imports are expected to remain flat the following year as switching to feed corn is likely.

Import Trade Matrix			
Country	Philippines		
Commodity	Wheat		
Time period	Jul-Jun	Units:	Metric Tons
Imports for:	2000		2001
U.S.	1,969,806	U.S.	1,449,821
Others		Others	
Canada	567,309	Canada	645,227
India	154,839	India	395,576

Singapore	114,878	Australia	109,534
Australia	92,278	New Zealand	57,520
		PRC	53,248
		Belgium	6,435
		Indonesia	3,072
		Japan	743
		Singapore	449
Total for Others	929,304		1,271,804
Others not Listed	18,396		10,677
Grand Total	2,917,506		2,732,302

Source: National Statistics Office

In the last quarter of 2002, Philippine flour millers reportedly were considering buying wheat from Argentina, France and Poland because of rising prices from traditional suppliers or no offers at all. Press reports were claiming that non-traditional wheat supplying countries were offering competitive prices and millers were seeking assurances of consistency of supply and quality. According to trade contacts, some millers have begun to experiment with blending high quality U.S. wheat with wheat from these non-traditional sources. Such experimentation can be inferred from the increase in the number of wheat suppliers as seen in the trade matrix. Feed wheat imports are levied a 7 percent tariff in 2003, unchanged from the previous year; this is scheduled to be reduced to 5 percent in 2004. Food wheat is assessed a 3 percent tariff through 2004.

## Stocks

In 2002, the NFA contracted to buy a total of 595,00 MT of rice from India. The amount was covered under three contracts, the first of which was 245 TMT, followed by 250 TMT and another of 100 TMT. A total of 638 TMT of Indian rice actually arrived in calendar year 2002, brought in by 14 vessels. Around 130 TMT or roughly 20 percent of the total volume that arrived was found to be infested with quarantine pests which required fumigation. Each vessel had varying degrees of pest infestation.

Talks of banning Indian rice imports started as early as July when the pest infestation was discovered. A congressional inquiry is currently underway. Rice imports from India are expected to radically decline in MY03/04 as a result of the infestation.

## Policy

Certain policy shifts are expected as a result of the recent change in the DA leadership (refer to RP2079). Unlike his predecessor, Leonardo Q. Montemayor, a peasant sector supporter, newly appointed DA secretary Luis P Lorenzo, Jr. has an agribusiness orientation.



One such policy shift can be seen in the reported preparedness of the GOP to give up the \$175 million Grains Sector Development Program (GSDP), funded by the Asian Development Bank (ADB). The GSDP entered into by the GOP on July 18, 2000 has two components: a \$100 million policy program aimed to aid the government in effecting policy reforms in the rice sector and a \$75 million investment component which builds infrastructure needed in the sector. The GOP had so far received \$30 million for the first tranche of the policy program, but the ADB has yet to release the \$40 million second tranche as the GOP has not complied with two conditions of the second release. These conditions include the GOP's removal of its price support and the lifting of quantitative restrictions (QR) on rice. The latter has met with stiff opposition by representatives from both the national and local governments and peasant groups. Secretary Lorenzo likewise has hinted that the government may have to negotiate for a maintenance of the *status quo* even after the WTO deadline for lifting the QR on Dec. 31, 2004. The release of the third and last tranche of the policy loan amounting to \$40 million also has a condition which calls for the separation of the regulatory and proprietary functions of the NFA. This condition is perceived to be even more difficult than the two conditions for the policy loan's second tranche.

Regarding rice importation by the private sector (refer to R2084), the NFA is set to conduct a review after most farmers were unable to open letters of credit (LCs) with the Land Bank of the Philippines (LBP). According to NFA Administrator Arthur C. Yap, out of the 150,000 MT allocated for importation in the first quarter, only about 40,000 MT has so far been availed of by farmers. Several groups had earlier warned of the inability of farmers and farmer groups to import rice citing the short time allocated for the opening of LCs. Others fear that major rice traders will likely end up getting the bulk of the import allocation in view of the 10,000 metric tons volume ceiling set in the guidelines. Industry contacts believe some farmer-importers will only sell their import permits to traders and in the long term, these farmers will eventually be traders themselves. Under the "Farmers as Importers Program" of the NFA, farmers are reportedly allowed to import half of the approved import requirement of 800 TMT for 2003.

Of the 400 TMT import quota reserved for farmers, 150 TMT will be imported in the first quarter and 250 TMT is to be imported in the second quarter. The balance of 400 TMT will be brought in by the GOP either through the NFA or the Philippine International Trading Corp (PITC). The government had earlier said the private sector would be allowed to bring in the entire 800 TMT.

In the area of biotechnology, the Philippine Rice Research Institute (PHILRICE) is field testing a genetically modified hybrid rice tolerant to bacterial blight. A consultant to USDA estimates that it will still take about four more years from before full approval or commercialization.

## Marketing

San Miguel Corporation (SMC), the country's largest food and beverage company, reportedly will be acquiring the bulk grain terminal facilities of the Asian Grains Terminal Inc. (ATI) in Mariveles, Bataan to handle most of the country's imports of raw materials which include corn, cassava, and possibly sugar for its agribusiness use.

Located at the mouth of Manila Bay, ATI's Mariveles Grain Terminal is considered to be the country's most modern bulk grain handler and possibly the best of its kind in Asia. With an average depth of 14.5 meters along its 217-meter pier, it can handle Panamax deliveries from at a rate of 8,000 to 10,000 metric tons per day. The facility also includes a second barge/ship loader which can accommodate smaller vessels of up to 6,000 dead weight tons (DWT) and has an

outloading capacity of 300 MT per hour.

The grain terminal in Mariveles has four Marweight-Siwertell unloaders which discharge grains into conveyors and bucket elevators, move the cargo to silos and warehouse facilities. There are a reported twenty vertical silos which have a total capacity of 110,000 MT, while the warehouses can hold 70,000 tons. Inside the warehouses are bagging machines that can handle 30 MT per hour.

The U.S. Wheat Associates (USWA) office in Manila continues with its marketing seminars as well as its baking school training programs. USWA is working through the various organized bakery associations in the major urban centers across the archipelago and has provided technical and informative seminars to importers and end-users on important quality characteristics which can assist their purchasing decisions.

PSD Table						
Country	Philippines					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	4080	4080	4100	4095	0	4095
Beginning Stocks	2797	2797	3447	3162	0	3462
Milled Production	8450	8450	8300	8450	0	8900
Rough Production	13000	13000	12769	13000	0	13692
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	1100	955	1000	1400	0	800
Jan-Dec Imports	1200	1360	1200	1055	0	400
Jan-Dec Import U.S.	0	38	0	60	0	50
TOTAL SUPPLY	12347	12202	12747	13012	0	13162
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consum.	8900	9040	9105	9550	0	9700
Ending Stocks	3447	3162	3642	3462	0	3462
TOTAL DISTRIBUTION	12347	12202	12747	13012	0	13162

PSD Table						
Country	Philippines					
Commodity	Corn				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	2485	2485	2485	2378	0	2500
Beginning Stocks	300	289	258	181	0	182
Production	4505	4505	4450	4326	0	4610
TOTAL Mkt. Yr. Imports	243	187	150	375	0	240
Oct-Sep Imports	300	240	150	325	0	180
Oct-Sep Import U.S.	220	170	0	240	0	125
TOTAL SUPPLY	5048	4981	4858	4882	0	5032
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	3315	3100	3175	3050	0	3300
TOTAL Dom. Consumption	4790	4800	4650	4700	0	4850
Ending Stocks	258	181	208	182	0	182
TOTAL DISTRIBUTION	5048	4981	4858	4882	0	5032

PSD Table						
Country	Philippines					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2001	Prelim.	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Harvested	0	0	0	0	0	0
Beginning Stocks	350	268	350	140	0	140
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	2922	2732	3300	2900	0	2900
Jul-Jun Imports	2922	2732	3300	2900	0	2900
Jul-Jun Import U.S.	0	1450	0	1500	0	1550
TOTAL SUPPLY	3272	3000	3650	3040	0	3040
TOTAL Mkt. Yr. Exports	62	0	50	0	0	0
Jul-Jun Exports	62	0	50	0	0	0
Feed Dom. Consumption	1000	1100	1450	1150	0	1000
TOTAL Dom. Consum.	2860	2860	3300	2900	0	2900
Ending Stocks	350	140	300	140	0	140
TOTAL DISTRIBUTION	3272	3000	3650	3040	0	3040